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ANNUAL AUDITED REPORT

FORM X-17A-5

PART III

FACING PAGE

SEC. Mail Processing
Section

MAR 01 2011

SEC FILE NUMBER

8-67194

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/10 AND ENDING 12/31/10
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER - DEALER:

Kepler Capital Markets, Inc.

OFFICIAL USE ONLY

FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

600 Lexington Avenue 28th Floor
(No. and Street)

New York
(City)

NY
(State)

10022
(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Yuen Na Chun (212) 509-7800
(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

KPMG LLP

(Name - if individual, state last, first, middle name)

345 Park Avenue
(Address)

New York
(City)

NY
(State)

10154
(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2). SEC 1410 (3-91)

AFFIRMATION

I, Christopher Kerr Lavagnino, affirm that, to the best of my knowledge and belief, the accompanying financial statements and supplemental schedules pertaining to Kepler Capital Markets, Inc. for the year ended December 31, 2010, are true and correct. I further affirm that neither the Company nor any officer or director has any proprietary interest in any account classified solely as that of a customer.

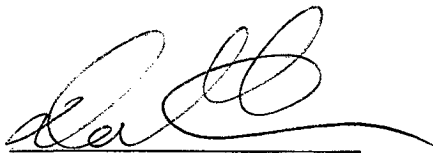


Signature

CEO, COO and CCO

Title

**Subscribed and sworn
to before me this 25th
day of February, 2011**



**DAVID LEVER
Notary Public, State of New York
No. 01LE6166345
Qualified in New York County
Commission Expires May 21, 2011**

KEPLER CAPITAL MARKETS, INC.
(An Indirect Wholly-Owned Subsidiary of
Kepler Capital Markets, S.A.)

Statement of Financial Condition

As of December 31, 2010

Assets

| | |
|---|--------------|
| Cash | \$ 1,059,144 |
| Restricted cash | 280,280 |
| Fixed assets (net of accumulated depreciation of \$942,893) | 411,163 |
| Due from broker | 498,959 |
| Accounts receivable | 482,604 |
| Prepaid expenses and other assets | 167,297 |
| Deferred tax assets | 162,184 |
| | <hr/> |
| Total assets | \$ 3,061,631 |
| | <hr/> |

Liabilities and Stockholder's Equity

Liabilities

| | |
|--|-----------|
| Due to affiliate | \$ 85,156 |
| Deferred rent liability | 135,728 |
| Accrued expenses and other liabilities | 779,534 |
| | <hr/> |
| Total liabilities | 1,000,418 |
| | <hr/> |

Commitments (note 5)

| | |
|---|--------------|
| Common stock (\$0.01 par value. Authorized 1,000 shares; issued and outstanding 100 shares) | 1 |
| Additional paid-in capital | 9,170,812 |
| Accumulated deficit | (7,109,600) |
| | <hr/> |
| Total stockholder's equity | 2,061,213 |
| | <hr/> |
| Total liabilities and stockholder's equity | \$ 3,061,631 |
| | <hr/> |

See accompanying notes to statement of financial condition.

KEPLER CAPITAL MARKETS, INC.
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Kepler Capital Markets, S.A.)

Notes to Statement of Financial Condition

December 31, 2010

(1) Nature of Operations

Kepler Capital Markets, Inc. (the Company) is a securities broker-dealer registered with the Securities and Exchange Commission (the SEC) and is a member of the Financial Industry Regulatory Authority (FINRA).

The Company is a wholly-owned subsidiary of Kepler Capital Markets, S.A. (Kepler or Parent), a French broker-dealer registered with the Banque de France. Kepler provides independent equity research and execution services with branch offices and subsidiaries in Amsterdam, Frankfurt, Geneva, London, Madrid, Milan, New York, Paris and Zurich. The Parent also offers clients a fixed income riskless principal execution business with established teams in Paris, Geneva and New York.

The Company acts as a broker for North American institutional customers in the purchase and sales of foreign securities, U.S. equities, American Depositary Receipts (ADR) and fixed income securities. The Company executes and clears foreign trades through the Parent. Clearing and settlement for the U.S. equities, ADRs and fixed income securities are settled and cleared on a fully disclosed basis through a U.S. clearing firm; the Company currently clears through Pershing LLC. All other equity transactions are settled on a Delivery versus Payment (DVP)/Receive versus Payment (RVP) basis. The Company does not perform proprietary trading and does not take risk and/or positions when executing orders on behalf of clients.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The statement of financial condition was prepared in conformity with accounting principles generally accepted in the United States of America which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial condition. Actual results could differ from these estimates.

(b) Translation of Foreign Currency

Purchases and sales of securities, and income and expenses that are denominated in other currencies are translated into U.S. dollar amounts using cumulative average rates. Year end balances are translated at the year end rate.

(c) Concentration of Credit Risk

The Company maintains substantially all of its cash balance at one major financial institution. However, the Company does not believe that these amounts are exposed to significant risk.

(d) Fixed Assets

Fixed assets are recorded at cost, net of accumulated depreciation and amortization, which is calculated on a straight-line basis over estimated useful lives of three to five years. Leasehold

KEPLER CAPITAL MARKETS, INC.
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Notes to Statement of Financial Condition

December 31, 2010

improvements are recorded at cost, net of accumulated amortization, which is calculated on a straight-line basis over the lesser of the lease term and the useful life.

(e) Income Taxes

Deferred tax assets and liabilities are recognized for the future tax effect of differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. In the event it is more likely than not that a deferred tax asset will not be realized, a valuation allowance is recorded.

The Company applies a single, comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on its tax returns. Income tax expense is based on pre-tax accounting income, including adjustments made for the recognition or derecognition related to uncertain tax positions.

(3) Regulatory Requirements

The Company is subject to Securities and Exchange Commission Uniform Net Capital Rule 15c3-1 and has elected to compute its net capital requirements in accordance with the Alternative Net Capital Method. Under this alternative, net capital, as defined, shall not be less than \$250,000. At December 31, 2010, the Company had net capital of \$719,869, which exceeded the required net capital by \$469,869.

The Company is exempt from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934 as the Company's activities are limited to those set forth in the conditions for exemption appearing in paragraphs (k)(2)(i) and (ii).

(4) Fixed Assets

Fixed assets at December 31, 2010 consist of the following:

| | | |
|---|----|-----------|
| Furniture | \$ | 228,388 |
| Equipment | | 528,395 |
| Leasehold improvement | | 597,273 |
| | | <hr/> |
| | | 1,354,056 |
| Less accumulated depreciation and amortization | | <hr/> |
| | | (942,893) |
| | \$ | <hr/> |
| | | 411,163 |
| | | <hr/> |

KEPLER CAPITAL MARKETS, INC.
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Notes to Statement of Financial Condition

December 31, 2010

(5) Commitments

The Company leases office space under a noncancelable lease agreement, which expires September 30, 2016. The future minimum annual base rent payments under this agreement are as follows:

| | <u>Total commitments</u> |
|--------------------------|------------------------------|
| Year ending December 31: | |
| 2011 | \$ 232,078 |
| 2012 | 260,581 |
| 2013 | 260,581 |
| 2014 | 260,581 |
| 2015 | 260,581 |
| Thereafter | <u>195,435</u> |
| | <u>\$ 1,469,837</u> |

The lease has provisions for escalations. The Company also has a restricted cash deposit of \$280,280 relating to the lease. The Company has entered into an irrevocable standby letter of credit payable to the landlord in case of default on the lease agreement for which the restricted cash is being held as collateral.

Guaranteed Bonuses

In the ordinary course of business, the Company has entered into certain contractual agreements with its employees. For the year 2010, the Company is obligated to pay \$325,000 in guaranteed bonuses provided employment remains in effect through July 1, 2011.

(6) Related Party Transactions

The Parent has provided the Company with a letter of support. The Parent has undertaken to provide additional capital, up to the amount of losses as may from time to time be required in order to meet the business requirements and regulatory reporting required of the Company through December 31, 2011.

(7) Subordinated Loan

The Company had a subordinated loan agreement with Landsbanki Islands hf in the amount of \$2,500,000 at a fixed interest rate of 6.5% and maturing on April 11, 2011. The Company received approval from FINRA to prepay the subordinated loan. Repayment of the subordinated loan principal and interest amount of \$3,170,813 was made on May 28, 2010. At the same time, the Parent made a capital contribution of the same amount of \$3,170,813. The loan was approved by FINRA to be treated as equity in computing net capital pursuant to the SEC's Uniform Net Capital Rule.

(8) Due from Broker

Clearing and settlement for U.S. equities, ADRs and fixed income securities are provided on a fully disclosed basis by a U.S. clearing broker-dealer pursuant to a clearance agreement. At December 31, 2010,

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Notes to Statement of Financial Condition

December 31, 2010

the receivable from clearing broker represents deposits with the clearing broker and commissions receivable earned as an introducing broker for the transactions of its customers. The Company has agreed to indemnify its clearing broker for losses that the clearing broker may sustain from the customer accounts introduced by the Company.

(9) Income Taxes

The Company has a deferred tax asset of approximately \$2,534,000 as of December 31, 2010. Most of the deferred tax asset balance, approximately \$2,067,000, is related to federal and state and local net operating loss (NOL) carryforwards. The Company also has a deferred tax liability balance of \$24,000 as of December 31, 2010.

While the existing deferred tax liabilities will reverse against deferred tax assets, management believes that the remaining net deferred tax assets are subject to a valuation allowance. Based upon the last three years' history of taxable losses and the current volatility in the financial markets, there is not sufficient positive evidence to support the realizability of the net deferred tax asset. As a result, management believes it is more likely than not that a portion of the future benefits of the net deferred tax assets will not be realized. Accordingly, the Company has recorded a valuation allowance of approximately \$2,348,000 as of December 31, 2010.

The Company had net unrealized benefits of \$162,000 as of December 31, 2010, all of which, if recognized, would affect the rate. The gross unrecognized benefits excluding interest and penalties consist of the following components:

| | |
|---|----------------|
| Balance at January 1, 2010 | - |
| Additions based upon current year tax positions | 162,000 |
| Additions for prior year tax positions | - |
| Reductions for prior year tax positions | - |
| Settlements | - |
| Lapse of statute | - |
| Balance at December 31, 2010 | <u>162,000</u> |

(10) Off Balance Sheet Risks

In the normal course of business, the Company executes, as agent, transactions on behalf of its customers where the risk of potential loss due to market fluctuations (market risk) or failure of the other party to the transaction to perform (credit risk) exceeds the amounts recorded for the transactions. Should a counterparty not fulfill its obligations in any of these transactions, the Company may be required to buy or sell the securities at prevailing market prices in the future.

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December 31, 2010

The Company's policy is to continuously monitor its exposure to market and counterparty risk through the use of a variety of financial position and credit exposure reporting and control procedures. In addition, the Company has a policy of reviewing the credit standing of each customer and/or other counterparty with which it conducts business.

(11) Subsequent Events

The Company has evaluated subsequent events through the date of issuance of this statement of financial condition.



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Report of Independent Registered Public Accounting Firm on Internal Control Required by SEC Rule 17a-5

The Board of Directors and the Shareholder
Kepler Capital Markets, Inc.:

In planning and performing our audit of the financial statements of Kepler Capital Markets, Inc. (the Company), as of and for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including consideration of control activities for safeguarding securities. This study included tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate debits and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by Rule 17a-13.
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's previously mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.



A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the company's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined previously.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2010 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, Financial Industry Regulatory Authority (FINRA), and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 25, 2011



KEPLER CAPITAL MARKETS, INC.
(An Indirect Wholly-Owned Subsidiary of
Kepler Capital Markets, S.A.)

Statement of Financial Condition

December 31, 2010

**(With Report of Independent Registered Public
Accounting Firm Thereon)**

KEPLER CAPITAL MARKETS, INC.
(An Indirect Wholly-Owned Subsidiary of
Kepler Capital Markets, S.A.)

SEC Mail Processing
Section

Statement of Financial Condition

MAR 01 2011

December 31, 2010

Washington, DC
110

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KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Report of Independent Registered Public Accounting Firm

The Board of Directors and the Stockholder
Kepler Capital Markets, Inc.:

We have audited the accompanying statement of financial condition of Kepler Capital Markets, Inc. (the Company) as of December 31, 2010 that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. This statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on this statement of financial condition based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit of a statement of financial condition also includes examining, on a test basis, evidence supporting the amounts and disclosures in that statement of financial condition, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Kepler Capital Markets, Inc. as of December 31, 2010, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

February 25, 2011